

M e m o r a n d u m

To: Panel Members Date: August 27, 2004

From: Dolores Kendrick, Manager Analyst: M. Paccarelli

Subject: ONE-STEP AGREEMENT FOR 21ST CENTURY INSURANCE GROUP

CONTRACTOR:

- Training Project Profile: Retraining: Companies W/Out-Of-State Competition
- Legislative Priorities: Moving To A High Performance Workplace
Stimulating Exports/Imports
- Type of Industry: Finance and Insurance
- Repeat Contractor: Yes
- Contractor's Full-Time Employees
 - Worldwide: 2,900
 - In California: 2,845
- ETP Trainees Represented by Union: No
- Name and Local Number of Union Representing ETP Trainees: N/A

CONTRACT:

- Program Costs: \$1,788,280
- Substantial Contribution: \$0
- Total ETP Funding: \$1,788,280
- Total In-kind Contribution: \$2,600,000
 - Trainee Wages Paid During Training: \$2,600,000
 - Other Contributions: \$0
- Reimbursement Method: Fixed-Fee
- County(ies) Served: Los Angeles, Contra Costa, Santa Clara, Orange, and San Diego

INTRODUCTION:

This is the second project between 21st Century Insurance Group (21st Century) and the Employment Training Panel (ETP). 21st Century is a California-based insurance company offering personal automobile, motorcycle, and umbrella insurance in California and automobile insurance in Arizona, Illinois, Indiana, Nevada, Ohio, Oregon, and Washington. 21st Century is organized as a holding company, with two subsidiary operational units, 21st Century Insurance Company and 21st Century Casualty Company.

The Company is eligible for Panel funding under Title 22, California Code of Regulations, Section 4416(a)(3,4), as a facility that provides a service out-of-state; and/or provides a service in the state in competition with providers of the same service, which are located outside the state. The Company proposes to retrain its workforce in the skills necessary for the Company to transition to a high performance workplace.

MEETING ETP GOALS AND OBJECTIVES:

21st Century proposes training that will further the following ETP goals and objectives:

- 1) Training is targeted to meet the need for a skilled workforce in a service industry. The Company faces strong competition from other companies in the insurance industry that are headquartered outside the State of California. Thus, this project meets ETP's legislative mandate to foster job retention in industries that provide a service out-of-state and are threatened by out-of-state competition.
- 2) This project meets ETP's legislative mandate to develop frontline workers with skills that prepare them for the high performance workplace.

TRAINING PLAN TABLE:

Grp/Trainee Type	Types Of Training	No. Retain	No. Class/Lab Videocnf. Hrs.	No. CBT Hrs.	Cost Per Trainee	Hourly Wage After 90 Days
Retrainee Job 1	MENU: Computer Skills Continuous Improvement Advanced Technology	1,810	24 - 200	0	\$312-\$3,000	\$14.25-\$70.82
					<u>Prevalent Hourly Wage</u> \$20.17	
					<u>Average Cost Per Trainee</u> \$988	
<u>Health Benefits Used To Meet ETP Minimum Wage:</u> Although the employer pays health benefits for employees, the hourly contribution is not being used to meet the ETP minimum wage requirement.				<u>Turnover Rate</u> 16%		<u>% Of Mgrs & Supervisors To Be Trained:</u> 34%
<u>Other Employee Benefits:</u> Long-Term Disability, Life Insurance, Pension Plan, Savings and Security Plan, Vacation and Holiday Pay, Sick Leave.						

COMMENTS / ISSUES:

➤ **Frontline Workers**

Approximately 66 percent of participants in this project meet the Panel definition of frontline workers under Title 22, California Code of Regulations, Section 4400(ee). The remaining 34 percent represents 610 managers and supervisors/leads.

COMMENTS / ISSUES: (continued)

The majority of the managers in the ETP-funded training will receive instruction in continuous improvement skills. These trainees must learn the skills necessary to lead a Six Sigma continuous improvement initiative which will enable the Company to implement the new computer system in the most effective manner possible and to begin other process improvements. In turn, these managers and supervisors will provide continuous improvement training to the rest of the workforce at the Company's expense.

➤ ***Production During Training***

The proposed Contractor agrees that during ETP-funded training hours, trainees will not produce products or provide services which will ultimately be sold.

➤ ***Advanced Technology Training (AT) Fixed Fee Rate***

21st Century is requesting the fixed-fee reimbursement rate of \$20 per hour for the Advanced Technology training in Job 1. The training consists of materials related to computer programming, mainframe operations, networking, information technology administration, and related modules. These courses are highly technical and require expert, trained, and experienced instructors. Classes will be provided at a ratio of ten trainees or less to one instructor. Because of the expertise involved in teaching these courses, costs of instruction are higher than the cost of other training with less complex content. The training will be provided to database administrators, information technology developers, information technology project managers, and network engineers.

➤ ***Repeat Contractor***

Although the proposed training will be conducted at the same training site as in the previous ETP contract, all of the training in the proposed ETP curriculum will be new to the Company and its employees. Prior ETP training was in business skills provided to customer service representatives, claims representatives, and new business representatives only. As part of their commitment to continued training beyond the prior ETP Agreement, the Company continues to provide business skills training to its workforce. This proposal will include a larger employee population and will not include any business skills training.

The Contractor is not subject to a substantial contribution for this ETP-funded project pursuant to Title 22 California Code of Regulations, Section 4410 which states that a substantial contribution shall be imposed on any employer for retraining which has previously benefited from Panel funding under at least two prior Panel Agreements at the same facility. This will be the second Agreement for the Woodland Hills facility.

PROPOSED ACTION:

Staff recommends that the Panel:

- (1) approve the use of the AT reimbursement rate for those topics identified in the curricula as advanced technology training; and
- (2) approve this One-Step Agreement if funding is available and the project meets the Panel priorities.

NARRATIVE:

Headquartered in Woodland Hills, California, 21st Century Insurance Group is reportedly the seventh largest personal auto insurance Company in California. It has division claims offices in Concord, San Jose, Monrovia, Irvine, Brea, San Diego, and Long Beach, California. The Company insures more than 1.4 million automobiles annually, serving its customers located throughout the Western and Midwestern United States primarily from its California locations.

21st Century offers services to its customers 24 hours a day, 365 days a year. Customers have the option to purchase insurance, service their policy, or report a claim over the telephone directly through the Company's centralized licensed insurance agents or through its full service internet site.

The Company's previous ETP contract was aimed at helping the Company grow and expand its business. Since that contract was approved, the Company's employment has increased by 17 percent and the number of automobiles covered increased by 27 percent.

The major focus of the proposed ETP training is the Company's new computer system, Automated Policy System (APS). This system is a custom-designed relational database with a graphical user interface on the desktop for customer service and claims processing staff. The new system allows for a near-paperless, automatic workflow distribution, assigning work to the staff who possesses the necessary skills and expertise to handle it. The new system will increase the Company's ability to respond to customer needs on a real-time basis, rather than completing paperwork and sending it to a data entry group to handle. The Company will be able to respond more quickly to customer inquiries regarding claims, policy changes, and billing. Customer information is available immediately at the time a customer asks for it, instead of the 5 to 10 days response time with the Company's old system. Real time workflow using APS will provide customers with faster policy changes with fewer errors.

The proposed Contractor states that successful implementation of this new system is an important strategic initiative for the Company. Computerized systems provide the information resources, telecommunications, and data processing capabilities necessary to manage the business. These systems support the activities of marketing, sales, service, and claims people. The APS system is focused on making it faster and easier for customers to transact business while ultimately lowering the Company's per-transaction costs.

Computer Skills

The largest trainee population is in the claims operations (office adjusters, claims examiners, claims representatives, managers and supervisors). These trainees will learn how to receive, create, and analyze initial loss reports, and investigate, evaluate, negotiate, and pay claims using the APS system. Customer care representatives, who take calls from customers about their policies, make changes, handle billing problems, and related matters, will also learn these functions using the APS system.

NARRATIVE: (continued)

Advanced Technology

Information technology staff (database administrators, developers, project managers and network engineers) will receive advanced technology training, so they can continue to develop and support the APS system. They will learn mainframe programming languages and skills to support the desktop application of the APS system.

Continuous Improvement

A group of managers and supervisors will learn Six Sigma and related continuous improvement skills to implement process change related to the APS conversion project. These employees will become Six Sigma "champions" and will train and coach other 21st Century employees.

Supplemental Nature of Training

State law requires that ETP funds be used to supplement, rather than displace, funds available through existing programs conducted by employers and government-funded programs.

The Company representative states that past training in the Company was limited to safety training, new hire orientation, new insurance laws and regulations, and Company procedures. All of the training in the proposed ETP curriculum, which is designed to help the Company implement the new APS computer system, will be new to the Company and its employees. The proposed training will include a larger employee population and more in-depth training that would otherwise be possible without financial assistance from ETP.

The Company reports that once the ETP program has concluded, 21st Century is committed to continue employee training and development activities for all departments at levels that will keep the Company competitive in the auto insurance industry and provide secure employment for its workforce.

SUBCONTRACTORS:

The following subcontractors will provide services for an amount to be determined prior to the start of training:

Training Funding Partners, Irvine, California (Administration services)
Trinet, Pomona, California (Advanced technology training)
Quick Start, Woodland Hills, California (Advanced technology training)

THIRD PARTY SERVICES:

The applicant states that Training Funding Partners assisted with the design of the training plan and completion of the application documents for a flat rate of \$25,000.

PRIOR PROJECTS:

The following are completed project statistics for ETP Agreements with this Contractor within the last five years:

PRIOR PROJECTS					
Agreement Number	Location (City)	Term	% Earned	<i>Planned</i> In-kind Contribution	<i>Reported</i> In-kind Contribution
ET02-0322	Woodland Hills	04/08/02 – 04/07/04	85%	\$2,300,000	\$1,955,000

21st CENTURY INSURANCE GROUP
MENU CURRICULUM

Training Hours
Class/Lab
24-200 hrs.

Trainees will be provided any of the following:

COMPUTER SKILLS

Automated Policy System (APS)

- Claims systems functions
- Customer Care systems functions
- Workflow & Electronic Files
- Automated forms & letters
- Client systems
- Policy functions
- Renewals
- Enterprise Billing
- Cancellations & Reinstatements
- Payments and Pay Plans
- Adjustments & Chargeoffs
- Policy Self-Service
- Reporting & Financials

CONTINUOUS IMPROVEMENT

Six Sigma Principles and Application

Continuous Improvement Projects and Implementation

AT Class/Lab
24-150 hrs.

ADVANCED TECHNOLOGY

(to be provided to Database Administrator, Information Technology Developer, Information Technology Project Manager, and Network Engineer only)

Universal Data Base (UDB)

Data Base 2 (DB2)

Mainframe Applications Development

Mainframe Database Design

Object/Relational Modeling

Oracle Performance Tuning & Recovery

Multiple Virtual Systems (MVS)

Managing and Maintaining a Microsoft Windows Server

Managing and Maintaining a Cisco Network

Managing and Maintaining Cisco Routers and Switches

Building Scalable Cisco Internetworks

Building Cisco Remote Access Networks

Building Cisco Multilayer Switched Networks

Installing, Configuring, and Administering Microsoft Windows XP
Professional